

Message Text

CONFIDENTIAL

PAGE 01 KUWAIT 05345 01 OF 02 211508Z
ACTION NEA-10

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-08 COME-00 TRSE-00
OPIC-03 AID-05 FTC-01 JUSE-00 L-03 CIAE-00 INR-07
NSAE-00 PA-01 PRS-01 USIA-06 SP-02 FEAE-00 /070 W
-----057768 211626Z /43

R 211423Z SEP 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 9047
INFO AMEMBASSY ABU DHABI
USINT BAGHDAD POUCH
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 5345

E.O. 11652: GDS
TAGS: ENRG, KU
SUBJECT: GOK NATIONALIZATION OF AMINOIL

REF: (A) KUWAIT 5274, (B) KUWAIT 5329

1. SUMMARY: DURING SEPT. 21 CALL ON OIL MINISTER AL-KAZIMI, HE ASSURED ME THAT GOK WOULD OFFER FAIR AND JUST COMPENSATION TO AMINOIL FOR THE TAKEOVER OF ITS OPERATIONS AND ASSETS IN KUWAIT AND THAT HE HAD GIVEN GUIDANCE TO THE COMPENSATION COMMITTEE TO TAKE INTO ACCOUNT ALL THE CIRCUMSTANCES INVOLVED IN THE TAKEOVER. AMINOIL GENERAL MANAGER ISON SAW APPOINTMENT OF FUAD AL-MATROUK AS CHAIRMAN OF EXECUTIVE COMMITTEE TO ADMINISTER AMINOIL OPERATION AS GOOD SIGN, NOTING THAT AL-MATROUK HAD BEEN MEMBER OF AMINOIL BOARD OF DIRECTORS. HE ANTICIPATED THAT AMINOIL WOULD ENCOUNTER SOME DIFFICULTIES IN REACHING A SATISFACTORY COMPENSATION ARRANGEMENT AND THOUGHT THAT GOK MIGHT RUN INTO SOME PROBLEMS IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KUWAIT 05345 01 OF 02 211508Z

MARKETING AMINOIL PRODUCTION ONCE CURRENT SHORT-TERM CONTRACTS EXPIRE. QUESTION OF COMPENSATION FOR AMINOIL NATIONALIZATION REMAINS POSSIBLE SOURCE OF IRRITATION FOR US/KUWAIT RELATIONS IF AMINOIL'S PARENT COMPANY, REYNOLDS CORP., INSISTS ON MAXIMUM PAYMENT FOR ASSETS. END
SUMMARY.

2. I CALLED ON MINISTER OF OIL ABDUL MUTTALEB A. AL-KAZIMI SEPT. 21 TO DISCUSS GOK NATIONALIZATION OF AMINOIL ON SEPT. 19 (REF. A) AND TO EXPRESS MY HOPE THAT SATISFACTORY ARRANGEMENTS FOR FAIR AND JUST COMPENSATION FOR EXPROPRIATED PROPERTY WOULD BE ARRANGED. I NOTED WITH SATISFACTION THAT, IN HIS SEPT. 20 PRESS CONFERENCE (REF. B), HE SAID THAT "HE RULED OUT ANY POSSIBILITY THAT THE NATIONALIZATION OF AMINOIL WOULD HAVE ANY AFFECT ON KUWAIT'S RELATIONS WITH THE UNITED STATES." I INDICATED THAT THIS WAS MY HOPE, TOO, PARTICULARLY AS IT PERTAINED TO THE REACHING OF A SATISFACTORY COMPENSATION ARRANGEMENT.

3. I REFERRED TO ARTICLE 2 (A) OF OIL MINISTRY DECREE 52/1977 FORMING A COMMITTEE ON COMPENSATION WHICH READ AS FOLLOWS: "THE COMMITTEE IS TO SEE THAT THE COMPENSATION SHOULD BE JUST AND REASONABLE AND IT SHOULD TAKE GUIDANCE FROM THE PRINCIPLES ADOPTED BY KUWAIT AND OTHER COUNTRIES IN DECIDING COMPENSATION FOR TAKING OVER OF OPERATIONS AND INDUSTRIES, AND ALSO TAKING INTO CONSIDERATION THE DIFFERENCES IN CIRCUMSTANCES AND CONDITIONS." I TRUSTED THAT THE REFERENCE TO "DIFFERENCES IN CIRCUMSTANCES AND CONDITIONS" WAS EVIDENCE THAT GOK TOOK COGNIZANCE OF FACT THAT TAKEOVER OF AMINOIL DIFFERED CONSIDERABLY FROM THAT OF KUWAIT OIL COMPANY IN WHICH GULF AND BP WERE COMPENSATED ONLY ON BASIS OF CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUWAIT 05345 01 OF 02 211508Z

BOOK VALUATION OF ASSETS.

4. AL-KAZMI ASSURED ME THAT GOK WOULD "SWEETEN" THE COMPENSATION PROVIDED AMINOIL. HE SAID THAT HE HAD GIVEN THE COMPENSATION COMMITTEE GUIDANCE TO TAKE INTO ACCOUNT ALL CIRCUMSTANCES INVOLVED IN THIS TAKEOVER. GOK DID NOT WANT THIS NATIONALIZATION OF LAST REMAINING FOREIGN OIL CONCESSION TO HAVE UNHAPPY CONSEQUENCES. HE REMINDED ME THAT, BECAUSE AMINOIL HAD TO PROCESS INFERIOR CRUDE, IT RECEIVED SPECIAL BENEFITS FROM GOK IN ITS CONCESSION ARRANGEMENTS. IN FACT, HE FELT THAT RECENT NEGOTIATIONS WITH AMINOIL HAD FAILED DUE TO LACK OF REAL INTEREST OF ITS PRESENT PARENT COMPANY, REYNOLDS CORP., IN CONTINUING OIL OPERATIONS IN KUWAIT.

5. I REPLIED THAT I WAS PLEASED TO HAVE THIS ASSURANCE. I HAD BEEN SORRY TO READ IN THE RECENT PRESS COVERAGE OF THE NATIONALIZATION THE CRITICISM OF AMINOIL ATTRIBUTED TO MINISTER OF STATE HUSSAIN, AND ALSO, AS REPORTED IN THE KUWAIT TIMES, TO HIMSELF, WHICH ACCUSED AMINOIL OF REFUSING TO BE REASONABLE AND REJECTING FAIR AND BALANCED PROPOSALS. I NOTED THAT THE EVALUATION

OF THE GOK'S PROPOSALS WAS BOUND TO DIFFER DEPENDING
UPON WHETHER ONE WAS NEGOTIATING ON BEHALF OF THE GOK
OR AMINOIL. AL-KAZIMI HASTENED TO SAY THAT HE WAS
NOT QUOTED CORRECTLY AND THAT HE HAD SIMPLY STATED
THAT AMINOIL "COULD NOT ACCEPT" THE GOK PROPOSALS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 KUWAIT 05345 02 OF 02 211524Z
ACTION NEA-10

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-08 COME-00 TRSE-00
OPIC-03 AID-05 FTC-01 JUSE-00 L-03 CIAE-00 INR-07
NSAE-00 PA-01 PRS-01 USIA-06 SP-02 FEAE-00 /070 W
-----058014 211625Z /43

R 211423Z SEP 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 9048
INFO AMEMBASSY ABU DHABI
USINT BAGHDAD POUCH
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 5345

6. IN SEPT. 20 DISCUSSION WITH AMINOIL MANAGING DIRECTOR
LARRY ISON, HE INFORMED ME THAT THE GOK WAS MOVING QUICKLY
TO TAKE OVER AMINOIL'S OPERATIONS. HE FELT THAT THE
APPOINTMENT OF FUAD ABDUL MOHSEN AL-MATROUK AS CHAIRMAN
OF THE EXECUTIVE COMMITTEE GIVEN RESPONSIBILITY TO
ADMINISTER THE COMPANY'S OPERATIONS WAS A GOOD SIGN.
MATROUK, ABOUT 35 YEARS OLD, HAD BEEN A MEMBER OF
AMINOIL'S BOARD OF DIRECTORS SINCE THE DEATH A FEW
YEARS AGO OF HIS FATHER WHO HAD BEEN AN AMINOIL DIRECTOR SINCE
KUWAITIS WERE FIRST INCLUDED IN THE AMINOIL BOARD WHEN
KUWAIT BECAME INDEPENDENT IN 1961. MOREOVER, MATROUK WAS
ALSO THE NEPHEW OF THE OIL MINISTER AND WAS MARRIED
TO HIS SISTER. MATROUK IS EXPECTED TO BECOME NATIONALIZED
COMPANY'S GENERAL MANAGER.

7. SINCE AL-MATROUK IS GENERALLY KNOWLEDGEABLE ABOUT
AMINOIL'S OPERATIONS, ISON THOUGHT THAT THE COMPANY
WOULD CONTINUE TO FUNCTION SMOOTHLY, ALTHOUGH HE FELT THAT
SOME DIFFICULTY MAY BE ENCOUNTERED IN MARKETING

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KUWAIT 05345 02 OF 02 211524Z

THE INFERIOR OIL PRODUCED BY AMINOIL WHICH DOES NOT HAVE LONG-TERM RANGE VOLUME CONTRACTS, SUCH AS THOSE HELD BY KOC. IN FACT, WHEN CURRENT SHORT-TERM CONTRACTS RUN OUT, GOK WOULD EITHER HAVE TO HANDLE MARKETING ARRANGEMENTS ITSELF OR WORK OUT SOME DEAL WITH AMINOIL TO DO SO WHEN THE KUWAIT WAFRA OIL COMPANY (KWOK) CAME INTO BEING. DURING MY TALK WITH KAZIMI, IN RESPONSE TO MY QUESTION WHETHER GOK HAD ANY INTENTION IN ASKING AMINOIL TO HANDLE MARKETING ARRANGEMENTS, HE SAID GOK EXPECTED TO CONTINUE TO SELL TO AMINOIL'S USUAL CUSTOMERS. HOWEVER, GOK WOULD BE WILLING TO CONSIDER AN AMINOIL OFFER TO HANDLE MARKETING.

8. ISON ALSO FORESAW SOME DIFFICULTY IN REACHING SATISFACTORY COMPENSATION ARRANGEMENTS, NOTING MEMBERSHIP ON COMPENSATION COMMITTEE OF SHAIKH ALI-KHALIFA AL-SABAH MINFIN UNDERSECRETARY. "IT MAY BE RECALLED THAT ALI-KHALIFA WAS THE STRONGEST PROPONENT DURING AMINOIL NEGOTIATIONS FOR THE TAKEOVER OF THE COMPANY." ISON THOUGHT THAT THE COMPENSATION COMMITTEE WOULD HAVE SOME PROBLEM IN MEETING ITS 30-DAY DEADLINE, PARTICULARLY SINCE ITS CALCULATIONS WOULD DEPEND IN PART ON THE WORK OF THE INVENTORY COMMITTEE, WHICH HAS A MAJOR TASK AHEAD OF IT TO INVENTORY ALL OF AMINOIL'S STOCKS AND ASSETS. HE BELIEVED THAT THE TRANSITION PERIOD UNTIL THE ESTABLISHMENT OF THE KUWAIT WAFRA OIL CO. IN PLACE OF AMINOIL WOULD LAST AT LEAST THREE MONTHS.

9. COMMENT: I AM INCLINED TO SHARE ISON'S VIEW CONCERNING THE DIFFICULTIES THAT MAY BE ENCOUNTERED IN REACHING A SATISFACTORY COMPENSATION AGREEMENT. DESPITE AL-KAZIMI'S REASSURING WORDS, THE PRESENCE OF ALI-KHALIFA ON THE COMMITTEE AND THE HARD BARGAINING NATURE OF THE KUWAITIS
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUWAIT 05345 02 OF 02 211524Z

WILL CAUSE THEM TO OFFER STRICT RATHER THAN GENEROUS COMPENSATION TERMS. CONSEQUENTLY A POTENTIAL FOR DISAGREEMENT IN US/KUWAITI RELATIONS DOES EXIST IN THIS CASE, UNLESS REYNOLDS IS SATISFIED, BECAUSE OF THE LARGE CASH PROCEEDS IN ITS HANDS, TO WRITE OFF AMINOIL'S ASSETS IN KUWAIT AT BOOK VALUE. OTHERWISE, THE MATTER COULD INVOLVE LENGTHLY NEGOTIATIONS WITH THE POSSIBILITY OF SUBMISSION TO ARBITRATION, ALTHOUGH IT SEEMS UNLIKELY THAT KUWAIT WOULD BE WILLING TO SUBMIT

THIS CASE TO INDEPENDENT JUDGMENT.

10. IN ANY EVENT, DEPT. SHOULD BE ALERT, ON BASIS OF
EMBASSY'S FUTURE REPORTING ON THIS MATTER, TO BRIEF
SECRETARY OF TREASURY BLUMENTHAL BEFORE HIS VISIT TO
KUWAIT (OCT. 25-26), SINCE SUBJECT OF FAIR COMPENSATION
MAY COME UP FOR DISCUSSION AT THAT TIME.
MAESTRONE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, PETROLEUM INDUSTRY
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977KUWAIT05345
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770343-0606
Format: TEL
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770940/aaaabhde.tel
Line Count: 232
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ea46fd40-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 KUWAIT 5274, 77 KUWAIT 5329
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1195281
Secure: OPEN
Status: NATIVE
Subject: GOK NATIONALIZATION OF AMINOIL
TAGS: ENRG, KU, AMINOIL
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ea46fd40-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009